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**FLORALS** 

JAN 17 2002 OCT. 31, 2001

PROBBAL COMMUNICATIONS COMMUNICATION DEAR CONGRESSMAN LO BIONSTOR OF THE SECRETARY

PS A SMALL BUSINESS OWNER AND PRIVATE CITIZEN, I WAS RATHER SHOCKED TO FIND OUT THAT MY SATELLITE PROVIDER, DIRECT T.V., HAS DECIDED TO MERGE WITH ECHOSTAR. TO SAY THE LEAST, IF THIS MERGER GOES THROUGH, IT WILL HAVE AN AOVERSE EFFECT ON EVERY SUBCREBER TO DIRECT TV. AS SUCH, IT WILL CREATE A MC-NOPOLY THAT WILL DESTROY THE COMPETITION WHICH HAS, UP TO NOW, EXISTED IN THIS IN-DUSTRY. FURTHERMORE, BECAUSE OF THE FACT THAT BOTH COMFANCES USE INCOMPATIBLE TECH-NOLOGIES, THOSE WHO SUBSCRIBE TO DERECT T.V., WILL, MOST LIKELY, BE FORCED TO PURCHASE AND INSTALL COSTLY FLECTRONIC EQUIPMENT.

IN ENDING, IT IS ALWAYS THE CONSUMER OR INDIVIDUAL WHO MUST SHOULDER THE COST OF HIGHER RATES THAT WILL TAKE PLACE WHEN ECHOSTAR AND ETS CEO CHARLES ERGEN HAVE TO FAY BACK THE VAST AMOUNT OF MONEY THAT WAS WEEDED TO PACILITATE THIS. MERCER PLEASE RELAY THIS CON-SINCHACKY YOURS CERN TO THE FICE 3102 Route 9, So. Rio Grande, N.J. 08242

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# Combining systems could create glitches for consumers

hogs might shake out.

O: Will I have to replace my DirecTV or EchoStar tecnder box or reception dish?

A: Many current subscribers -- probably today's Diecfy customers - will need to make a change at o transmit signals, and they want to create a single o reposition current ones. But the companies haven't lisky to buy a box that only receives Directly. lecided yet when the transition will take place and new terre it could last.

nent - probably compatible with EchoStar's current out cable don't pay more than subscribers in highly

slify the satellite TV business for consumers. But the centives to appeade, Soll, it's nuclear what happens to debt and financing estigations he'll face. reation of a monopoly could complicate life in the those who don't change their service, particularly borr run for many particularly the nearly 17 million. Those who bought "smart" boxes such as those with visu subscribe to one of the two services. Here's how - digital personal video recorders. Directly Chairman Eddy Hartenstein says. There'll be no cost and no inconvenience" to consumers, tiesen says \$2 billion over 4 years is budgeted for the transition.

O: Will new subscribers see any changes?

A: Even before the deal closes, EchoStar and Diome point. The companies use different technologies - recTV svill try to rush to the market with boxes that are capabble of receiving both services. That'll probnationwide satellite system. That also means some lably take at least 6 months. New customers will be ustomers will need new satellite dishes, or will have encouraged to buy those units. Until then, it might be

O: What will happen to monthly rates?

A: Ergen yows he'll keep rate increases low so he'll O: How will the change work, and who will pay? be a more effective competitor to cable. He also says A. The companies hope that once the merger is that he's prepared to offer a national subscription rate. omplete, many people will opt to buy new equip. That would ensure that rural customers in areas with-

NEW YORK — Echostar CEO Charlie Figen says his—system — to get the latest services, including inter-roposed deal to combine with DirectV should sim—active TV. Executives say they'll give consumers in-will have big incertives to raise prices to cover the

O: Will program offerings change? For example, will I still be able to get sports subscription packages, such as the NFL Sunday Ticket, games DirecTV offers but EchoStar doesn't?

A: Here, too, there's a lot that has to be worked out. But DirecTV has deals in place for its most popular offerings. The NFL deal runs through 2002; NBA basket half and NHL hockey through the 2001-2002 season, and Major League Baseball through 2003.

O: Will I still be able to buy my satellite service at consumer electronics stores?

A Possibly The question is whether chains such as Best Boy, Circuit City Radio Shack or Blockbuster will have much incentive to promote EchoStar's service. which will use the DirecTV brand Retailers now get befty commissions from DirecTV to offer that service exclusively. But that won't be an issue when there's no competition. And Ergen says he can save a let of cash by slashing those paranetto.

NAYNE R. JORGENSIEU 3032 RT 9 SOUTH RIO GRANDE, N. 5

PHONE # 609-463-8403 FAX # SAME AS ABOVE

# EchoStar-DirecTV merger faces antitrust, consumer issues

### Deal would create satellite monopoly

By David Lieberman USA TODAY

NEW YORK - General Motors' agreement late Sunday to merge DirecTV with EchoStar provides a long-awaited answer to one question about the future of the boxes of to reposition satellite dishes No. 1 satellite service.

and policymakers assess how the compa-transition costs effectively compacte nies' effort to create a national satellite against cable?" says Satellite Business News' monopoly with nearly 17 million subscribers will affect the marketplaces for example in the history of telecommunicatelevision, the Internet and other services. Some say it will choke competition and innovation and result in higher prices. Others insist that just the opposite svill. Ergen would have the leverage in dictate. Wyoming, Mississippi and North Dakota. happen as the new satellite giant amasses - what technologies will appear in decoderenough clout to challenge cable.

Antitrust regulators and lawmakers, certainly examine those issues and others—says the Carmet Group's hunny's haeffler—for small operators in upgrade their sys-in what could be the most important—Freen's cloud might be most keenly felt—tens to provide additional chargests and

bined with Time Warner in January.

say they don't see how he can escape the formidable debt he'll have, in addition, he'll have a massive job converting Direct V cheaply than cable, because satellite transcustomers to EchoStar's service.

The two use incompatible technologies to transmit video. It's unclear whether Echostar or DirecTV customers will shoulder most of the costs for new decoder

How can a company with \$11 billion in But it raises several more as consumers debt and as much as \$7 billion more in Bob Scherman, "And there's not a single tions where duopolies lower prices. It would be a disaster for consumers."

As the only provider of satellite services, boxes as well as their cost

"If he's the only one building their, then particularly those from rural states, will the price he sets is the price world play."

media merger since America Online con- among makers of set-top boxes that contain digital personal-video recorders. EchoStar CEO Charlie Ergen's opponents which enable viewers to record TV shows and pause live programs. Satellite broadcasters say they can offer this service more

> mits digital signals while cable needs an unalog-to-digital converter.

If Ergen misused his monopoly pow-er, it would probably be left first in rural areas, often too thinly populated or too poor to support cable. More than 30% of TV homes in Mon-



tana. Vermont. use satellite services.

The switch to satellite services in rural America could accelerate. As cable pepetransor talls, it becomes less economical

Systems serving more than 8 million mostly rural subscribers could fold in the next 8 years, according to a report from Credit Suisse First Buston.

Ergen has said that he's prepared to sign a consent decree that would prevent him from charging awal customers more than urban custome: . He also would continue to provide programming on a wholesale basis to Pegasus, which delivers DirectV services mostly in rural areas.

But consumer advocates also want the federal government to provide broadcast ficenses to a new company. Northpoint, to compete with cable and satellite. It would transmit refrestrial over-the-air signals on

the same frequencies satellites use.
"Instead of Josep, a competitor, you'd just replace it." says Consumers Union's Gene Kimmelman. The Federal Communications Commission is rrying to decide. whether Northpoiet signals interfere with satellite transmissions.

Others are more upbeat about Ergens. desire and ability to complete with cable.

"Hed pravide core - francels, more to --

services, including high-speed Internet cal channels and more services," says SG Connections and video-or-demand. Cowen Securities' Rob Kaimowitz, one of Ergen's more vocal supporters, "My experience is that his goal is to beat cable, and you don't do that by raising prices."

Many add that this is a good time to combine the companies and their transponders. They will be under pressure in lanuary, when federal regulations will bar them from offering only the most popular local channels in communities they serve. DirecTV and EchoStar have said that will keep them from providing any local services in some markets.

firen says he'd have the freedom to lower prices because he can squeeze as much as \$56 hillion by climinating duplication and launching new services. And while analysts differ over the size of the savings, many agree with the point,

There'd probably be improvement in subscriber economics by 30% to 40%," says Morgan Stanley Dean Witter's Vijay Jayant. The combined entity becomes a more formidable competitor to cable and a better value proposition to consumers."

Merger agreement, IB

FRANK : ZE THIS MERGER GOES THROUGH, IT WILL HAVE AN THANKS, PS SUCH, IT COSEL CREATE A MCHOPON THAT WILL DESTROY THE

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## Murdoch felt success within his grasp as late as Fridav

: By David Lieberman USA TODAY

NELV YORK - News Corp. CEO Rupert Murdoch was growing confident earlier this month. After 1½ years of te-dious negotiations, he was about to strike a deal with General Motors to buy a controlling interest in its Hughes Electronics subsidiary, with its jewel, DirecTV, the USAs No. 1 satellite ser-

Many thought it would be the capstone to his extraordinary career.

hast Friday, on the eve of a decisive CM board meeting, Murdoch was so sure of victory over his rival, EchoScar CEO Charlie Ergen, that he rented a half in a Manhattan hotel. He envisioned a Monday press conference to announce that his satellite armuda would span the globe. His media clout would rival that of AQL Time Warner. And it would be sweet vindication. His four previous at-tempts to become a U.S. satellite power - including a 1997 deal with Ergen had ended in failure.

For good measure, he gave GM an ultimatum: Decide on his offer by Satarday, or he'd walk away.

what Murdoch didn't realize was that the winds had shifted.

CM was no longer stiff-arming Ergen the way it had before early August. when he startled the industry by makweeks later, GM executives began warming to Ergens plan to merge DirecTV and EchoStar into a national satellite monopoly.

One concern, that federal antitrust regulators would never approve such a plan, was soothed by lawyer David Boies, who advised the Justice Department when it prosecuted Microsoft, and Al Gore when he battled to win Horida's electoral votes in last year's presidential election. Boies gave a inceful presentation to GM executives at the New York offices of their at-

torneys, Well Gorshal and Manges.
Meanwhile, GM executives grew concerned about Murdoch's offer as stock prices plummeted for some of the assets he wanted to merge with Hughes. That exacerbated the fear that Murdochs contribution, including privately held assets such as Star TV, were

too hard to evaluate.
Some also feared that, if they threw their lot in with Murdoch, they'd be shortchanged if he cut deals to help out his backers, Liberry Medias John Malo-ne and Microsoft's Bill Gates.

Then, key shareholders blessed a deal with EchoStar.

"We're really thrilled," says broad-caster Stanley E. Hubbard, a former sat-ellite power who owns about 43 million Highes shares, "Ergen is a Delieves in satellites. Our confidence in Hughes management was well-placed.

Still. CM executives had to determine how serious Ergen was. One key meet-

### How the deal is structured

### **EchoStar**

EchoStar shareholders to receive about 1.37 shares of merged company for each EchoStar share.

Equivalent to 0.73 EchoStar shares per Hughes share, a premium of approximately 20% based on iriday's closing price.

Who would own new company

53X

GM Class Hishareholders

**建设建设 18X** 

18X

GM shareholders

**教**法 11%

Charlie Ergen<sup>4</sup>

EchoStar public shareholders

#### Hughes

▶ Immediately before merger, Hughes redeems up to \$4.2 billion of GM's interest in Hughes for cash.

### **CM**

- ➤ Prior to clusing automaker may exchange up to 109 million shares of Class H stock for Call Jebu securities
- ► Fully communed financing totals \$5.5 billion.

### What EchoStar would get

100% of DirecTV

► \$5.6 billion in revenue ► 8.7 million subscribers ► Direct to Home service

75% of DirecTV Latin America

- ➤ \$0.7 billion in revenue
- 1.6 million subscribers
- ▶ Direct to home service
- 100% of Hughes Network Services

  St.; billion or revenue
- ➤ Sitelite broadbankl-crynes
- 81% of PanAmSat
- ▶ \$0.9 billion in revenue
- ► Publicly traded S3-4bille to
- market cap
- ► 21 satethtes ► Satellite services

Top cable & satellite TV providers Subscribers (in millions) Combined Direct V. EchoStar Time Warner Cable 16.7 12.7 ATKI Comcast **於可應數(8.7** 15.1 Charter . 5 36 6.9 Cox

.公息集 6.2 Adelphia 5.7 Cablevision The state of the s 발일: 3.0

Revenue in billions of dollars 59.6 Combined DirecTV, EchoStar 3 (EU 2 2 E 2) 59.2 Time Warner Cable **增速流流 57.1** Comeast \$5.1 54.5

The state of the s





Winner: EchoStar CEO Charlie (rgen talks about his DirecTV deal.

ing was set to take place in New York on Sept. 11, the day of the terrorist attacks on the World frade Center. EchoStar executives couldn't fly in, yet GM officials still wanted to meet via phone that day. The parties finally agreed to postpone it to the following Sunday at DirecTVs offices near Los Angeles. Ergen passed a crucial test that weekend when he rejected a condition that CM wanted to impose. Executives respected the fact that he wouldn't overpromise.

EchoStar had momentum. And the

odds of a deal with GM grew the following week. With stocks seemingly in a free fall, including Hughes shares. Murdoch cut his offer by about \$1 bil-tion. By late September, Hughes execnon, by face September, August exec-nives were privately telling sharehold-ers that the deal was Ergen's to lose.

That was a real possibility. Ergen hadn't locked up the \$5.5 billion in cash he needed, mostly to buy out GM's

stake in Hughes.
Still, GM intensified its talks with EchoStar. "We were told they were under a short time fuse," says EchoStar general counsel David Moskowitz, "We were negrifiating literally 24 hours a day. People would go home, take a shower, get a bite to eat and then re-

All that work appeared to have been in vain by last Friday. After Sept. 11, investment banker UBS Warburg insisted on tacking onto its \$2.7 billion, 2-year bridge loan an extensive "material ad-verse change" provision. That would give it a lot of leeway to scrap the offer. And the bank's terms were unacceptable to GM. That night — hours before the GM board was scheduled to meet and with Murdoch threatening to walk away - UBS hacked our.

Following an afternoun conversation with GM's CFO John Devine, Murdoci, believed that victory was just homaway. EchoStar executives in Denv.thought that they had lost

Indeed, Devine's case for Mordos-seemed to be winning as the Saturda, board meeting got underway.

But the dynamics changed around ! p.m. when an unusual fax arrived from Denver. Ergen agreed to pledge \$2.75 billion worth of EcnoStar stoct that he owns as collateral for GM to front the cash - at least until they caline up one or more banks to make more conventional loan.

While the board initially didn't wall: to accept, directors were impressed with Ergen's moxie. After a brief reces-GM executives proposed around 6 p.ir that they adjourn for 48 hours to consider the proposal.

The message was clear. They had to fused to meet Murdoch's ultimatur and were looking for a way to we with Ergen. From his New York apa ment, Murdoch prepared a statemassaying that he was withdrawing

His satellite dream was over the sunday. Ergen's had just begun

WAYNE JONGENSEN 303: RT. 9 SOUTH RIC FRANCOIS, N.J. 18242

[HONE 609-463-8403